

Canada's Net International Investment Position Increased to Record High in Q4-2019

- The value of Canada's net international investment position jumped in the fourth quarter of 2019, now accounting for 43% of Canadian nominal GDP, mainly owing to strong performance by foreign stock markets through the end of 2019.
- The increase in the value of Canada's international liabilities through Q4-2019 was mainly driven by an inflow of funds into Canadian currency and deposits, as well as foreign direct investment.
- The data print provides a stale look at Canadian net foreign asset position, with the value of both assets and liabilities expected to decline in line with the coronavirus-driven rout in financial markets and an oil price shock of 2020.

CANADA'S NET CREDITOR POSITION GROWS

Canada's net international investment position (IIP) increased by CAD 197 bn over the fourth quarter of 2019, setting the net creditor position slightly above one trillion CAD for the first time (chart 1). Canada's net IIP fully recovered after falling in early 2019 due to increased trade policy uncertainty. Now, the value of Canada's IIP is CAD 1,006 bn and is equivalent to 43% of nominal GDP—up from 35% in the previous quarter (chart 1, again).

The trend toward higher Canada's net creditor position began in 2013 following a period of volatility in financial markets, and was later reinforced by the oil shock in 2014.

FOREIGN ASSETS AND LIABILITIES FOLLOW MARKETS HIGHER

Canada's marked rise in value of net IIP was led by a notable pickup in assets while liabilities continued their slower, albeit positive, upward trend (chart 2).

The value of Canadian foreign assets grew by CAD 337 bn through Q4-2019, with the value of stock totaling CAD 5,784 at the end of the year. The pickup in assets abroad was largely attributable to strong equity market performance through the end of 2019. The total value of Canada's foreign portfolio investments—which account for around 45% of Canadian assets abroad—tends to track the S&P 500 closely (chart 3), as a high share of Canada's foreign assets is denominated in USD. Canadian foreign direct investment abroad also climbed higher as global economic policy uncertainty showed signs of improvement (chart 4).

The value of Canadian liabilities increased by CAD 140 bn in Q4-2019, taking the total stock to CAD 4,778 bn. This increase was mainly driven by a CAD 64 bn inflow of currency and deposits, as well as a CAD 50 bn pickup in direct investment into Canada (chart 5). In contrast, total portfolio investments increased by just CAD 15 bn over the fourth quarter of 2019—a small increase of 0.6% q/q compared with the 2.4% rise in the S&P/TSX Composite Index over the same period (chart 6).

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Chart 1

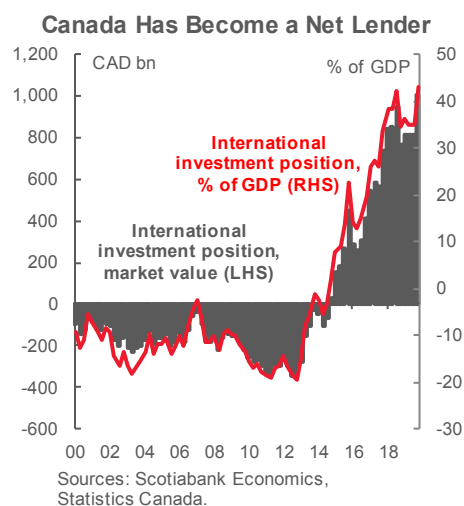
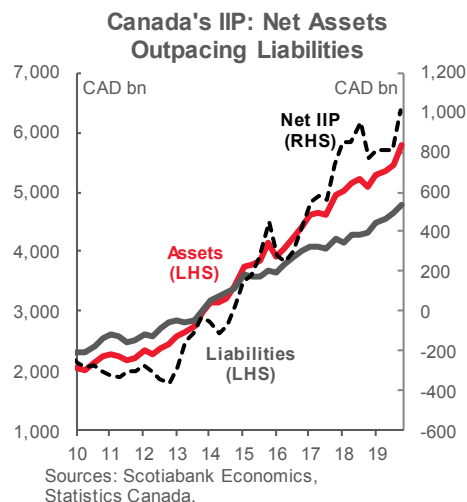


Chart 2



Strong investment data in the fourth quarter was largely attributable to an easing of economic policy uncertainty and in turn, strong equity market performance. The market volatility and economic uncertainty so far in 2020 is likely to lead to substantial declines in the value of the Canadian assets and liabilities in Q1-2020.

Chart 3

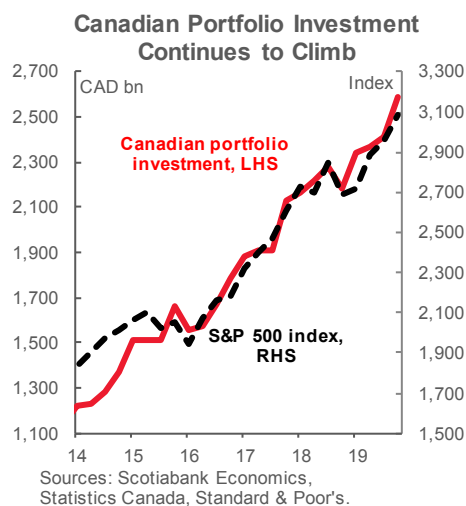


Chart 4

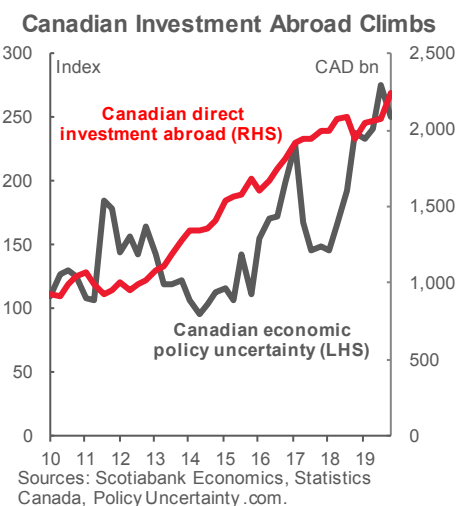


Chart 5

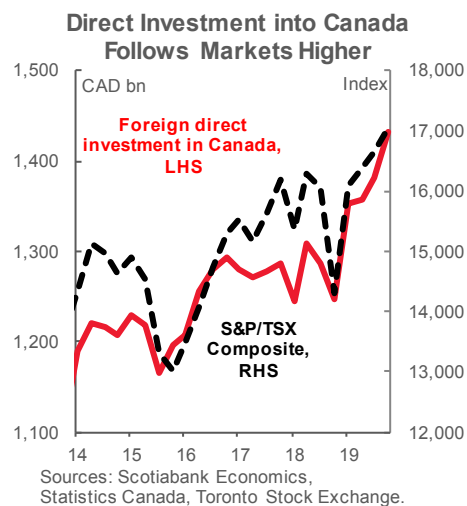
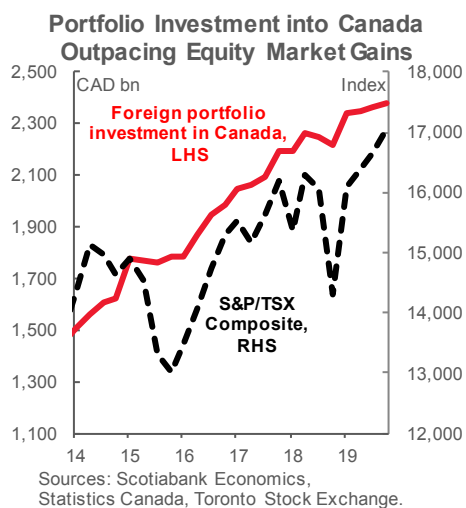


Chart 6



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